

SUBCOMMITTEE NO. 2

Agenda

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Resources—Environmental Protection—Energy

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3600 Department of Fish and Game

Background. The Department of Fish and Game (DFG) administers programs and enforces laws pertaining to the fish, wildlife, and natural resources of the state. The Fish and Game Commission sets policies to guide the department in its activities and regulates fishing and hunting. The DFG currently manages about 850,000 acres, including ecological reserves, wildlife management areas, hatcheries, and public access areas throughout the state.

Governor's Budget. The Governor's Budget proposes \$200 million to support DFG in the budget year. This is about 25 percent less than estimated expenditures in the current year due to a reduction in bond funds available for appropriation. General Fund support for the department is proposed to increase by 26 percent to mitigate the impacts of recent legislation that requires funding to be diverted for the fish hatchery program.

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Type of Expenditure				
Biodiversity Conservation Program	\$206,640	\$128,837	-\$77,803	-37.7
Hunting, Fishing, and Public Use	44,013	46,375	2,362	5.4
Management of Lands and Facilities	43,047	44,876	1,829	4.2
Conservation Education and Enforcement	49,059	58,515	9,456	19.3
Spill Prevention and Response	30,600	31,544	944	3.1
Capital Outlay	2,250	1,299	-951	-42.3
Administration	33,756	35,236	1,480	4.4
<i>less distributed administration</i>	<i>-33,756</i>	<i>-35,236</i>	<i>-1,480</i>	<i>0.0</i>
Total	\$375,609	\$311,446	-\$64,163	-17.1
Funding Source				
General Fund	\$42,499	\$53,560	\$11,061	26.0
Special Funds	144,442	140,504	-3,938	-2.7
Bond Funds	78,906	6,140	-72,766	-92.2
<i>Budget Act Total</i>	<i>265,847</i>	<i>200,204</i>	<i>-65,643</i>	<i>-24.7</i>
Federal Trust Fund	68,442	68,343	-99	-0.1
Reimbursements	38,928	39,671	743	1.9
Salton Sea Restoration Fund	2,387	2,615	228	9.6
Harbors and Watercraft Revolving Fund	5	5	0	0.0
Special Deposit Fund	-	608	-	-
Total	\$375,609	\$311,446	-\$64,163	-17.1

1. Basic Budget Transparency

Background. The basic mission of the Department of Fish and Game has evolved from a governmental agency formed to regulate hunting and fishing activities to a department with broad public trust responsibilities for the protection of California's fish and wildlife. Many of these changes occurred in the 1970s, including the enactment of the California Environmental Quality Act (CEQA) and the California and federal Endangered Species Acts.

It is well known that the department's funding base has not been augmented to sufficiently support the department's public trust responsibilities and mission. Many of the public trust mandates were added without adequate funding. Furthermore, the department's funding

problems have been compounded by declining hunting and fishing revenues and increasing pressure on fish and wildlife habitats from human population growth.

This flawed funding structure has caused the department to shift resources away from basic fish and wildlife monitoring activities, data analysis, and land management, to the review of development and resource extraction projects that have potential impacts on fish and wildlife resources. The department has indicated that the consequences of this shift, over time, include the degradation of the information on fish and wildlife being used by the department and a backlog of environmental improvement work on department lands.

During the 2005 budget process, DFG's budget was extensively reviewed. In budget hearings, the department reported that it did not have reliable data sufficient to report on what it was doing to maintain and restore wildlife habitat and species. Furthermore, it was impossible to determine the extent to which legislative mandates were being implemented by the department. As part of the 2005 Budget Act, supplemental report language was enacted to require the department to provide extensive information on which activities the department is accomplishing and how those activities are being funded. The department was also provided \$200,000 from the General Fund to support activities to help the department answer the questions in the supplemental report language.

Governor's Budget. In late March, the department submitted the supplemental report language requested as part of the 2005 budget. This report did not provide sufficient detail to determine the level of activities being performed by the department and the funding dedicated to each activity. The department has indicated that its internal workload tracking system and budgeting system do not make it possible to report this information.

The department has initiated a multi-phase project with external consultants to develop systems to allow the department to provide the Legislature and public with the information requested in the 2005 supplemental report. Work on this project was started in the fall of 2005 and is projected to continue through calendar year 2006.

Recent DFG Report to the Federal Government Cites Need for Additional Funding. Information in a recent report released by DFG entitled "California Wildlife: Conservation Challenges" finds that "...success or failure to conserve California's wildlife may well hinge on the level of funding dedicated to wildlife conservation and restoration programs over the next few decades." The report specifically finds that additional funding for the following efforts is needed to effectively protect wildlife and habitat in California:

- **Resource Assessment.** Currently there are major gaps in data available for making decisions about the impacts of a project on a species or even the basic status of a species. Additional information is critical for making decisions, prioritizing expenditures, and planning projects that maximize benefits for wildlife. This investment would improve the efficiency and efficacy of DFG's conservation efforts.
- **Conservation Planning.** Over the past 15 years, California has been implementing voluntary multi-species regional approaches to wildlife habitat conservation in some parts of the state. Expanding these planning processes is critical for maintaining habitats and wildlife corridors before development occurs. These proactive planning efforts are

essential in a fast growing state for maintaining key habitats and will also provide increased certainty for landowners.

- **Habitat Management and Restoration.** Over the past 25 years, the amount of land DFG manages has quadrupled from 250,000 acres to about 1 million acres. However, over this same time period, funding for management of this land has not kept pace. Currently there is one DFG person per 10,000 acres and many lands have no dedicated staff. The lack of adequate management on state lands results in vandalism, habitat destruction by invasive species and potential threat of fire.

LAO Findings. The LAO finds that a recent report by the Bureau of State Audits has raised concerns that the department does not have a clear set of priorities to guide its allocation of fiscal resources among multiple objectives. The LAO also finds that the Legislature has repeatedly asked the department for information on the level of activity in its various program areas, and the department has been unable to provide an adequate response.

Staff Comments. Staff finds that the report submitted by the department does not provide the information requested in the 2005 report on activities, statutory mandates, funding sources, and outcomes. This information is critical to the Legislature's ability to evaluate the department's current activities and determine the level at which the department is implementing its statutory mandates. The department indicates that it is working on making changes to its current accounting and reporting systems in order to facilitate the collection of this information.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Request the department to provide information on a timeline for completing its current work plan to modify current workload tracking and budgeting systems.
- Request that staff, the department, the LAO and DOF work on supplemental report language that mirrors the report requested in 2005 on activities, statutory mandates, funding sources, and outcomes, including setting an appropriate deadline for the report.

2. Fish and Game Preservation Fund

Background. This Fish and Game Preservation Fund receives revenues from hunting and fishing licenses and taxes, commercial fishing permits and fees, and environmental review fees paid by project proponents. Statute provides that some of these revenues may be used to support a broad range of programs related to hunting and fishing, as well as fish and wildlife protection and management activities. These revenue sources are referred to as "nondedicated" revenues. The Fish and Game Preservation Fund is also supported by revenue sources that are "dedicated" by statute for specific activities relating to the sources from which they were collected.

In 2005, the LAO found that DFG had been addressing shortfalls in certain accounts within the Fish and Game Preservation Fund by shifting funds from the reserves of other accounts to cover those shortfalls. As a result, some dedicated accounts within the Fish and Game Preservation Fund have significant negative balances. The Legislature directed the department in supplemental report language to address the Fund's structural deficits in the Fish and Game Preservation Fund in the Governor's 2006-07 budget proposal.

Governor's Budget and Finance Letter. The Governor's Budget and Finance Letter (dated March 30, 2006) proposes \$4.7 million in General Fund monies to address the shortfall in the nondedicated account of the Fish and Game Preservation Fund. In addition, the budget and Finance Letter also propose to shift \$1.6 million in expenditures funded by the nondedicated account to various dedicated accounts. The Governor's Finance Letter also proposes \$1.2 million in General Fund monies to address the revenue shortfall projected from the closing of salmon fishing season on the North Coast.

LAO Recommendation. The LAO finds that the budget proposal does bring the Fish and Game Preservation Fund into balance, but does not address the structural deficit problem in the fund's individual accounts. Specifically the department has provided information showing that two accounts—the streambed alteration account and the nondedicated account—will begin the budget year with a negative beginning balance of \$8.2 million and \$15.8 million, respectively. The LAO recommends a two-step process for addressing the existing negative account balances. First, the LAO recommends the following options for addressing the immediate problem of the negative fund balances:

- Provide General Fund or special fund loans to the accounts with negative balances, with specified repayment terms. These loans could be repaid over a term by either reducing expenditures or increasing revenues from fees.
- Provide loans from Fish and Game Preservation Fund accounts with available fund balances to the accounts with the negative balances, with specified repayment terms. These loans could also be repaid over a term by either reducing expenditures or increasing revenues from fees.
- Providing a General Fund transfer to the accounts with negative balances.

Second, the LAO recommends that the Legislature take action to require each account in the Fish and Game Preservation Fund to have a prudent reserve. The LAO finds that adopting this policy will help the department address the risks inherent in the department's revenue projections and help to avoid negative fund balances in the future.

The LAO also recommends adopting trailer bill language to require that the annual fund condition statement displayed in the Governor's budget document for the Fish and Game Preservation Fund include both the dedicated and nondedicated revenue sources. The LAO finds that this information would enhance legislative oversight of this fund in the future.

Status of Salmon Season. On April 6, the Pacific Fisheries Management Council voted to limit salmon fishing opportunities for commercial and recreational anglers due to the predicted low abundance of naturally spawning Fall Chinook on the Klamath River system. Salmon spawning on the Klamath River system has been impacted by poor water quality related to low flows in the river, due mainly to agricultural diversions and barriers to fish passage related to hydropower facilities. The National Marine Fisheries Services is scheduled to take an action on the recommendations of the Council sometime later this month. The DFG estimates that the economic impact of a partial salmon season closure could exceed \$60 million.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Adopt the budget proposals to increase General Fund by \$4.7 million to address the ongoing imbalance in the nondedicated account of the Fish and Game Preservation Fund.
- Adopt the budget proposal to shift \$1.6 million in expenditures from the nondedicated account in the Fish and Game Preservation Fund to various dedicated accounts.
- Hold open the budget proposal to add \$1.2 million in General Fund to address the projected revenue shortfall from the projected closing of salmon fishing season on the North Coast.
- Request staff, the department, DOF, and the LAO to evaluate the accounts within the Fish and Game Preservation Fund that have negative fund balances and develop strategies to repay these structural budget deficits using the LAO's options.
- Request staff, the department, DOF and the LAO to develop trailer bill language to require that the annual fund condition statement displayed in the Governor's budget document for the Fish and Game Preservation Fund include both the dedicated and nondedicated revenue sources.

3. Trout Fish Hatcheries

Background. In 2005, legislation (AB 7, Cogdill) was enacted to require that effective July 1, 2006, one-third of the fees derived from sport fishing licenses be deposited into the newly created Hatchery and Inland Fisheries Fund. Previously all fees derived from sport fishing licenses were deposited in the non-dedicated account of the Fish and Game Preservation Fund and used to support all game programs, including hatchery activities. This legislation specifies that the funds from this account may only be used to support the management, maintenance, and capital improvement of California's fish hatcheries, the Heritage and Wild Trout Program, and related enforcement activities. The statute also sets forth a schedule for achieving specific trout production goals.

In the current year, about \$6 million is being spent from the Fish and Game Preservation Fund for hatcheries and other purposes specified in AB 7. Effective, July 1, 2006, AB 7 requires that \$16.8 million be spent on these purposes, resulting in a \$10.8 million or 180 percent projected increase to hatchery operations.

Governor's Budget. The Governor's Budget proposes \$13.7 million (\$12 million from the Fish and Game Preservation Fund and \$1.7 million from federal funds and reimbursements) to fund AB 7, which is less than what is required under AB 7. The Governor also proposes trailer bill language that would make the following changes to AB 7:

- Extend the schedule for achieving the trout production goals set forth in AB 7.
- Reduce from one-third to 27 percent the amount of sport fishing fees that would be used for the purposes of AB 7.
- Allow for federal funds and reimbursements to be used to meet the requirements of AB 7.

The budget also proposes \$6 million in General Fund to "hold harmless" the programs that would be affected by the redirection of sport fishing license revenues to hatchery operations. These programs include management of the department's wildlife areas, resource conservation

planning, environmental document review, and other projects to enhance sport fishing opportunities and address unhealthy fish populations.

LAO Recommendation. The LAO finds that the department has not submitted a specific plan, including identifying the positions needed to implement AB 7. The LAO recommends that the department submit an implementation plan and a request for positions prior to budget hearings. The department has not provided a plan.

The LAO has also found a technical budget error related to the scheduling of expenditures in the budget bill to reflect the implementation of AB 7. The department concurs with the LAO's finding which would transfer \$6 million from Program 40—Conservation Education and Enforcement to Program 30—Management of Department Lands and Facilities.

Staff Comments. Staff notes that the department has indicated that it is still developing a plan for implementing AB 7, including a possible revision to the trailer bill language that was recommended with the January 10 budget. Staff finds now it plans to implement AB 7 as it was enacted would cost an additional \$4.8 million in General Fund in order to avoid reductions to other programs that are currently supported by the Fish and Game Preservation Fund.

Staff Recommendation. Staff recommends that the Subcommittee hold this issue open pending a plan from the administration on how it plans on implementing AB 7.

4. Technical Budgeting Issues

Governor's Budget and Finance Letter. The Governor's budget requests federal expenditure authority of \$68.2 million and reimbursement expenditure authority of \$39.7 million. However, the Finance Letter (dated March 30, 2006) for DFG indicates that an initial review by the department has identified excess budget authority in these schedules. In other words, actual funding from these funding sources is expected to be less than the amount reflected in the Governor's budget.

The Finance Letter proposes redirecting \$2 million in excess reimbursement authority and \$500,000 in excess federal authority to support initial work on one or more habitat conservation plans for the Delta.

LAO Recommendation. The LAO recommends that the department's federal expenditure authority be reduced by \$10.5 million due to a lower than projected grant award related to salmon and steelhead recovery efforts.

Update. The department concurs with the LAO's findings and after a review by the department and DOF finds that both federal funds and reimbursements are overstated in the Governor's budget. The department now proposes to reduce reimbursement authority by \$523,321 and federal expenditure authority by about \$11,994,515 for the budget year.

Staff Recommendation. Staff recommends that the Subcommittee reduce DFG's reimbursements by \$523,321 and federal funds by \$11,994,515.

5. Department Re-Harmonization

Background. During the fall of 2005 the department indicated that it was going through an internal re-harmonization process to consolidate activities and consider shifting certain programs to other divisions.

Governor's Budget and Finance Letter. The Governor's budget proposal does not include a proposal to re-harmonize the department's activities. However, the Finance Letter (dated March 30, 2006) proposes changing the name of the department's Program 40 from Conservation Education and Enforcement to Enforcement and proposes transferring funding for the conservation education program to Program 25—Hunting, Fishing, and Public Use. No details have been provided to support this change.

LAO Recommendation. The LAO finds that little information has been provided on the department's efforts to re-harmonize its programs and activities. Therefore, the LAO recommends that the department report at budget hearings regarding the proposed organizational changes and how they will impact the level of program activities of the department.

Update. The department has provided staff with a brief outline on what it hopes to accomplish in its re-harmonization effort. The efforts include the following:

- Create a straight line enforcement branch.
- Reallocate program activities for native anadromous fish and of the Watershed Branch into the Fisheries Branch and Habitat Conservation Planning Branch.
- Reallocate program activities of the Lands and Facilities Branch into the Wildlife Branch and Habitat Conservation Planning Branch.
- Consolidate geographic information system activities into the Biogeographic Data Branch.
- Consolidate the Resource Assessment Program into the Wildlife Branch.
- Consolidate grants administration into a Grants Branch in the Administration Division.
- Consolidate information technology functions into an Information Technology Branch in the Administration Division.
- Consolidate the Office of Natural Resource Education and Conservation Education into the Office of Communications, Education, and Outreach Division.

The department indicates that the efforts listed above are intended to improve efficiency and effectiveness while enhancing transparency and communication.

Staff Comments. Staff finds that additional information is needed regarding the impact of reallocating program activities to other branches within the department. Staff is generally supportive of efforts to consolidate similar functions, including information technology, grant administration, and enforcement efforts. However, it is unclear how priorities might change with the consolidation of other program activities. For example, it is unclear how priorities related to the Resource Assessment Program would be changed by consolidating this program with the Wildlife Branch, which is responsible for the department's hunting programs.

Staff Recommendation. Staff recommends that the Subcommittee hold open the department's administration budget and request the department to provide additional information on the rationale for its re-harmonization efforts.

6. Fisheries Restoration Grant Funds

Background. Since 1981, DFG has provided grant funds through the Fisheries Restoration Grant Program to landowners, public agencies (including DFG), and nonprofit groups to restore salmon and steelhead populations through improved habitat. The program funds a variety of different activities including education projects, on-the-ground restoration work, and field surveys by DFG.

Current law requires that \$8 million in tidelands oil revenues be expended to support salmon and steelhead restoration efforts, including the Fisheries Restoration Grant Program. The 2005 Budget Act provided \$8 million from tidelands oil revenues for this purpose, but \$4 million was vetoed by the Governor. On average, over the past several years, expenditures on this program have leveraged about \$13 million annually in federal funds. Federal funding for this program requires a 25 percent match by the state.

Governor's Budget. The Governor's Budget proposes \$4 million in General Fund monies for the Fisheries Restoration Grant program to restore habitat for Coho Salmon and Steelhead Trout. These funds will be used to leverage approximately \$6.5 million in federal funding for this activity.

Tidelands Oil Revenues. The budget does not contain funding from tidelands for this program since current law is scheduled to expire on June 30, 2006. Legislation (SB 1125 [Chesbro] and AB 2134 [Harman]) is currently being considered to reauthorize the expenditure of tidelands oil revenues on the Fisheries Restoration Grant Program and other resources programs.

Staff Comments. If legislation is enacted to allocate tidelands oil revenues to the Fisheries Restoration Grant Program, staff finds that the General Fund could be allocated to meet other needs within the department.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Adopt the budget proposal to allocate \$4 million in General Fund monies to the Fisheries Restoration Grant Program.
- Request that staff, the department, the LAO, and the DOF evaluate allocating additional funding from tidelands oil revenues for the Fisheries Restoration Grant Program in the budget year.

7. Land Management

Background. The amount of lands managed by DFG has quadrupled in the last 25 years from 250,000 acres to over one million acres. Funding to manage these lands has not kept pace.

Currently, DFG is spending, annually, an average of \$13 per acre to maintain, restore, and manage state-owned wildlife areas and ecological reserves. This level of funding supports approximately one staff person for every 10,000 acres. Some lands are being operated with as little as \$1 per acre.

Land management entails providing site security, managing public health and safety on the lands, managing wildlife and natural resources, maintaining infrastructure, and managing recreation and other uses. Without adequate funding, department lands are subject to vandalism, illegal dumping and trespassing that degrades the land and makes the state a bad neighbor. Funding for land management is also needed to realize the wildlife potential of some lands and to meet the habitat goals for which they were purchased.

Governor's Budget and Finance Letter. The Governor's Budget and Finance Letter (dated March 30, 2006) has four proposals to enhance management of state-owned lands.

- **Bond Funds.** The budget proposes allocating the remaining \$886,000 in Proposition 12 bond funds to support two 1-year limited-term positions and fund the following projects: (1) the acquisition of short-term wetland easements for the California Waterfowl Habitat Program (\$647,000), (2) other projects to manage and enhance lands owned by the department (\$159,000) and (3) activities to control noxious weeds on DFG land in San Diego County (\$80,000).
- **Endowment Funds.** The budget proposes to spend \$608,000 in interest from the Special Deposit Fund for management and projects on lands received as mitigation for threatened and endangered species. The department currently has \$30 million in endowment funds to manage in perpetuity 5,000 acres of land under 280 different mitigation agreements.
- **Other Capital Outlay.** The budget proposes \$1.3 million in special funds (\$1.1 million Public Resources Account, \$130,000 federal funds, \$75,000 Proposition 12 bond funds) for various other capital outlay improvements on state lands.
- **Management of Bolsa Chica Lowlands.** The Finance Letter requests \$216,000 in reimbursement funds to support three positions to manage the Bolsa Chica Lowlands. The reimbursements are from a mitigation account managed by the State Lands Commission. The Commission received \$17 million through port mitigation for the management and restoration of the Bolsa Chica Lowlands.

Complete Infrastructure Plan Needed. The 2006 California Five-Year Infrastructure Plan identified \$5.5 million in infrastructure needs for the next five years. However, the plan also indicates that the *total* infrastructure need for DFG's existing wildlife areas and ecological reserves is unknown. The Infrastructure Plan serves as a starting point, but, because it is not complete, more work is needed to create a more comprehensive plan. The Infrastructure Plan indicates that the DFG is working on several studies to inventory existing facilities, including conditions and infrastructure needs. This information is needed to develop a strategic investment plan for capital improvements that will preserve and enhance the ecological values of the lands owned and managed by DFG.

Ongoing Management Inadequate. The department's land management needs have grown significantly over the past 25 years, but staffing has not kept pace. As mentioned previously, many state lands do not even have adequate security and are at risk of posing a nuisance in some

neighborhoods. The department indicates that it has completed 84 land management plans and is working on 46 other plans. It is encouraging that plans are being developed for the DFG's lands. However, lack of funding has not allowed these plans to be implemented. More resources are needed to manage state-owned lands to ensure public safety and to maintain the ecological values of the land.

The department's Finance Letter proposal to fund the management of the Bolsa Chica Lowlands does augment ongoing land management resources for this property. The Bolsa Chica Lowlands property is 880 acres, which includes approximately 380 acres that are currently being restored to full tidal wetlands. The department currently has only one position to manage 2,400 acres of other state lands in this area in addition to the Bolsa Chica Lowlands. This is not an adequate level of staffing especially given the size of the restoration project being conducted on the Bolsa Chica Lowlands property.

Oversight of Endowment Funds. The department indicates that it currently has around \$30 million in endowment funds to manage lands received by the department as mitigation for threatened and endangered species. The department is responsible for using the interest earned from these funds to cover annual land management costs in perpetuity. These funds are currently held in the Special Deposit Fund in special accounts set up by legislation (AB 2517, Berg) enacted in 2004.

Assembly Bill 2517 not only established two special accounts within the Special Deposit Fund, but it also made the interest on these endowment funds subject to appropriation by the Legislature. Therefore, the department proposes to expend \$608,000, which is the amount of interest the department estimates it will earn annually on the endowment. The department indicates that there is \$6 million in accumulated interest that has not been expended. The department does not currently have a plan for expending the \$608,000 or the accumulated interest, but indicates that it will develop and implement a plan over the next three years.

The department also indicates that it currently expends about \$100,000 annually that is continuously appropriated from a different account within the Special Deposit Fund. It is not clear to staff why these funds are treated differently than those that require an appropriation by the Legislature.

Staff finds that legislative oversight of the expenditure of these funds is relatively ineffective without the ability to review a plan for expending these funds. Furthermore, legislative oversight could be enhanced if the annual budget display included a fund condition of the interest that is available for appropriation.

Consider Other Funding Sources. Staff finds that the department proposes to fund a majority of its capital outlay projects from the Public Resources Account. While this is an appropriate funding source, staff finds that the nature of the activities being proposed may appropriately be funded by other funding sources. For example, staff finds that there is a significant need for fencing around state properties that will reduce the amount of trespassing, illegal dumping, and unauthorized off-highway vehicle (OHV) use. Therefore, the Subcommittee may want to

consider funding this type of activity with one-time grants from the OHV Fund and/or the Integrated Waste Management Account.

Furthermore, around \$500,000 of the capital outlay projects proposed are on wetlands that are required to be operated as part of the Central Valley Project Improvement Act. It is unclear why these expenditures are not made by the Central Valley contractors who are required to contribute around \$20 million annually to the Central Valley Improvement Fund for ecosystem restoration.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve the budget proposal to expend the remaining Proposition 12 bond funds to various land management projects.
- Approve the budget proposal to expend endowment funds for management of mitigation properties.
- Request the department to provide additional information on the endowment funds that it currently expends through continuous appropriation.
- Request the staff, department, LAO, and DOF to develop trailer bill language to require the annual budget act to include additional information about the interest funds available for expenditure from the department's endowment funds.
- Request the staff, department, LAO, and DOF to develop supplemental report language to require the department to prepare a report on its plans to expend the endowment interest funds.
- Hold open the budget proposal to fund other capital outlay projects and request the staff, department, LAO, and DOF to explore other one-time sources of funding that could be used to fund infrastructure improvements on department lands.
- Approve the Finance Letter proposal to augment staffing to manage the Bolsa Chica Lowlands property.

8. Bay-Delta Sport Fishing Enhancement

Background. In 2003, legislation (SB 692, Kuehl) was enacted to establish the Bay-Delta Sport Fishing Enhancement Stamp program. This program funds projects that have a long-term sustainable benefit to sport fishing and sport fish populations in the San Francisco Bay-Delta. The revenues are generated by the sale of a stamp that is required for all anglers fishing in the San Francisco Bay-Delta. The legislation requires the director to appoint a stakeholder advisory committee to recommend projects for funding.

The San Francisco Bay-Delta is the largest estuary on North America's West Coast and is also the source of the majority of drinking water for Southern California. The Bay-Delta also delivers water for agricultural uses in the Central Valley. In 1994, the CALFED Program was created as a consortium of state and federal agencies that have regulatory authority over resource management in the Bay-Delta region. The objectives of the program are to provide good water quality, improve fish and wildlife habitat, reduce the gap between water supplies and projected demand, and reduce the risk from deteriorating levees in the Delta. So far, a little over \$4 billion has been spent on this program from state, federal, and local sources.

In most cases, enhancement of sport fishing in the Bay-Delta does not conflict with the goals of the CALFED program. However, historically, the department has stocked the Bay-Delta with striped bass to enhance sport fishing opportunities in the Bay-Delta. Because striped bass are piscivorous (they eat other fish), this action was detrimental to native fish populations in the Bay-Delta, including salmon, steelhead, and delta smelt. This action to enhance sport fishing opportunities reduced other efforts by the department to recover native salmon and steelhead trout populations in the Bay-Delta. The department discontinued stocking striped bass in 2003.

Governor's Budget. The Governor's Budget provides \$1.5 million from special funds and 2.5 positions to support a program for the long-term sustainable benefit of sport fishing in the San Francisco Bay-Delta. This program is supported by the Bay-Delta Sport Fishing Enhancement Stamp and an advisory committee has recommended several projects to be pursued with this funding, including sport fishing access, monitoring and research, fisheries and habitat restoration, and public outreach.

Avoid Working at Cross Purposes. As mentioned above, enhancing sport fishing opportunities are sometimes in conflict with restoration purposes. The department indicates that any restoration projects funded under the Bay-Delta Sport Fishing Enhancement Stamp program will be required to meet CALFED objectives. However, the department will seek proposals in a process separate from the CALFED program. Staff finds that this is a step in the right direction towards avoiding projects that work at cross purposes with DFG's efforts to restore the ecosystem of the Bay-Delta.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve the budget proposal to fund the Bay-Delta Sport Fishing Enhancement Stamp Program.
- Approve trailer bill language to amend Fish and Game Code §7361 to require that fishery and ecosystem restoration projects be consistent with CALFED ecosystem restoration objectives.

9. Marine Life Protection Act

Background. The Marine Life Protection Act (MLPA) of 1999 requires DFG to review and develop a Master Plan and recommend alternative networks of marine protected areas in order to protect marine life and habitats, marine ecosystems, and marine natural heritage. After two failed attempts to implement the MLPA, the department has partnered with the Resources Agency and the Resources Legacy Fund Foundation to achieve the MLPA goals. In 2004, the Secretary for Resources convened a Blue Ribbon Task Force to make public policy recommendations on implementing the MLPA to the Fish and Game Commission.

In April 2005, the task force recommended a draft MLPA Master Plan Framework to DFG, which the Fish and Game Commission subsequently adopted in August 2005. This framework sets forth a recommended process for designing alternative marine protected area network proposals and recommends issues to consider when designing marine protected areas such as science and habitat. In December 2005 and January 2006, the task force forwarded to the Secretary for Resources a set of recommendations for long-term funding of a system of marine

protected areas in California. The report recommended the following strategies for funding the MLPA:

- Pursue General Fund monies.
- Pursue statute to establish an occupancy tax on lodging in coastal areas.
- Pursue statute to direct fines and/or legal settlements from harmful acts in marine environments.
- Pursue statute to revise business permits or licenses for activity in marine environments so that they cover the costs to enhance marine life.
- Pursue statute to revise permits or regulations for businesses that impact the ocean so that they cover the costs to enhance marine life.
- Convene a rigs-to-marine life agreement to set aside funds for decommissioning oil rigs and enhancing marine life.
- Seek federal and private sector support on a matching basis.

In March 2006, the task force recommended three packages of marine protected areas for the central coast. These alternatives are now being considered by the Fish and Game Commission. The task force is currently working on developing recommendations for coordinating the management of marine protected areas with the federal government and will have recommendations by November 2006. The ultimate goal of the taskforce is to secure agreement and commitment among state agencies with marine protected area responsibilities by November 2006 to complete statewide implementation of the Master Plan by 2011.

Governor's Budget and Finance Letter. The Governor's budget includes \$500,000 from the Environmental License Plate Fund in the base budget to support the department's efforts to implement the MLPA. The Finance Letter (dated March 30, 2006) submitted by the administration includes an additional \$380,000 from the General Fund to support 3.75 existing positions to continue to implement the MLPA. These positions have been supported by a contract with the Resource Legacy Fund Foundation, which will expire on December 31, 2006.

Governor's Proposal Falls Short. The Master Plan adopted by the Fish and Game Commission in August 2005 reviewed the current state of enforcement resources at DFG and found that the department does not have sufficient resources to enforce existing state laws and marine protected areas. The proposed budget augmentation is not enough to address the identified deficiencies in enforcement. Furthermore, it will not allow the department to establish and enforce the new network of marine protected areas for the central coast as recommended by the task force. In addition, the department will need additional resources if it is to stay on track in implementing new networks of marine protected areas statewide by 2011.

The MLPA was enacted in 1999 and this is the third attempt to implement the act. If funding is not provided to continue implementation it may result in further delays. It is critical that the department have the resources to implement the Master Plan, which lays out a transparent process that designs marine protected areas based on science and input from stakeholders. If corners are cut on this planning process it will probably result in further delays. Staff understands that it will likely cost the state around \$8 million annually to implement the Master Plan framework over the next several years. This would include funding for monitoring, management, enforcement, and education at the Channel Islands and along the central coast of

California. It would also include funding the department's continued efforts to implement the MLPA statewide by 2011.

Staff Recommendation. Staff recommends that the Subcommittee hold this issue open and request that the department provide additional information on what it would cost to fund the following activities in the budget year:

- Monitoring, management, enforcement, and education of marine protected areas at the Channel Islands and along the Central Coast of California.
- Initiating design efforts for a network of marine protected areas along a different section of the California coast.

10. Regulation of Bottom Trawling

Background. Bottom trawling is the practice of towing fishing nets along or near the bottom of the ocean floor, in order to catch bottom-dwelling species of fish. Bottom trawlers primarily target California halibut and other flatfish, prawns and pink shrimp, and sea cucumbers. Bottom trawling can result in a large amount of by-catch such as rockfish, alteration of the ocean floor, and stirring up of large amounts of sediment. Legislation (SB 1459, Alpert), enacted in 2004, required the phase out of bottom trawling by moving it further offshore, limiting entry into the fisheries, and giving the Fish and Game Commission authority to manage all bottom trawl fisheries.

Governor's Budget. The Governor's budget does not provide additional funding to implement these regulations.

Update on Implementation. The department recently indicated that it was unable to implement SB 1459 due to lack of funding. The department has requested that the Fish and Game Commission postpone promulgating regulations for this legislation due to the department's inability to implement the regulations with current budgetary resources. It is unclear why the Governor has not proposed funding to implement the legislation he signed into law in 2004. Without the permanent permitting process in place as required under the legislation, the state's trawl fishers are unable to pursue fishing opportunities in a way that protects the environment.

Staff Recommendation. Staff recommends that the Subcommittee request that the department provide additional information on the projected costs to implement SB 1459.

11. Early Detection of Avian Influenza

Background. Avian influenza is an infectious disease of birds. Aquatic birds are considered the natural host of this virus. Influenza viruses usually do not cause disease in wild birds, but certain influenza virus strains are causing mortality in domestic poultry and some wild species in Asia and Eastern Europe. The influenza strains have been transferred to humans in a limited number of cases when humans had direct contact with bodily fluids of the diseased bird.

Finance Letter. The Finance Letter (dated March 30, 2006) submitted by the administration requests \$1.1 million in General Fund monies to support one permanent position and 13 temporary help positions to set up a program for monitoring waterfowl and shore bird populations in urban areas for avian influenza. Approximately \$863,000 is proposed to support the positions and to contract with U.C. Davis for laboratory testing. The remaining funding is one-time to upgrade the department's mobile diagnostic lab equipment.

Workload Justification. The department indicates that it is currently conducting some activities that fit within strategies for detection identified in the recently developed National Plan for detection. These activities include work by the department's Wildlife Investigations Laboratory to investigate wildlife disease problems statewide and providing information on the occurrence of disease. The department's Waterfowl Program also routinely coordinates population assessments and other migratory game bird management duties in the Pacific Flyway. However, neither of these programs have temporary help, vehicles, nor a budget to collect samples and support laboratory diagnostic costs. The department is requesting one position to supervise a team of 13 temporary help positions to help improve the department's ability for early detection and diagnostic capabilities necessary.

Coordination with Other Efforts. The department indicates that it is a member of an interagency taskforce of state and federal agencies that is developing and monitoring research and response strategies for avian influenza in wildlife. Participants in this interagency taskforce include the California Department of Food and Agriculture, the U.S. Department of Agriculture, the National Parks Service, the California Department of Health Services, the Office of Emergency Services, the U.S. Fish and Wildlife Service, the U.S. Geological Survey, and U.C. Davis.

Maximizing Federal Funding. Over the past five years, California has received nearly \$1 billion in federal funding for Homeland Security Grants. A large portion (88 percent) of that funding has been allocated to local governments and the remainder has been used to fund various state efforts related to homeland security and emerging threats. Avian influenza is an emerging threat that may be eligible for funding from the federal government. It is unclear whether the department has applied to the State Office of Homeland Security for federal funding to offset one-time costs associated with funding the department's efforts to detect avian influenza in the migratory bird population. However, the department indicates that it may be eligible for \$125,000 in grant funds from the U.S. Fish and Wildlife Service.

Staff Recommendation. Staff recommends that the Subcommittee hold this issue open pending additional information about the department's plans to maximize federal funding for this effort.

12. Other Budget Change Proposals

Governor's Budget. The Governor's budget includes funding for the following purposes:

- **Mitigation Fish Hatchery Program.** The budget includes \$681,000 from reimbursements and federal funds to support eight permanent positions and 2.1 temporary positions mainly to restore personnel at four mitigation fish hatcheries in the Central Valley. These hatcheries are operated by DFG, but are funded by various water districts

and the federal government to ensure that salmon and steelhead populations that were lost above the dams are adequately mitigated.

- **Automated License Data System.** The budget includes \$448,000 in one-time funding from the non-dedicated account of the Fish and Game Preservation Fund to support the implementation of an information technology project to replace DFG's current paper-based licensing system. This proposal is consistent with an approved Feasibility Study Report and Special Project Report.
- **Federal Trust Fund Financial Coordination.** The budget includes \$189,000 from the Environmental License Plate Fund to support two positions to manage expenditures and reporting to ensure accountability to federal grant organizations.

Workload Justification. The department indicates that 5.7 positions were lost during the hiring freeze and vacant position sweep during 2002-03 and 2003-04 at the Feather River, Mokelumne River, and Nimbus Hatcheries. The loss of these positions has resulted in inadequate maintenance of hatchery infrastructure and grounds and little to no long-term planning to improve fish culture and planting practices. This budget proposal restores these positions and requests additional positions to address additional facility needs and augment interpretive activities at no cost to the state.

The automated license data system is projected to save the state \$1.5 million annually in staffing and operations and equipment expenditures due to operational efficiencies gained by the automated system. The department will fully implement the system in 2007-08. The funding proposed for the budget year funds the continued development of a system that is similar to systems already implemented in other states.

Over the past five years, the state has received over \$250 million in federal funds to support various activities. The department receives grants from 11 different federal agencies and must ensure proper documentation is available for billing and audit purposes. Furthermore, many of these funding sources require specific reporting that must be completed in a timely manner or else the department risks losing future funding allocations. The federal government recently concluded that DFG had insufficient coordination and financial administration of federal grant funds to ensure full compliance with the federal guidelines. The budget proposal will help the department fully comply with federal guidelines to ensure federal funds are maximized.

Staff Recommendation. Staff recommends that the Subcommittee approve these proposals.

13. Salary Issues

Background. The department currently has 200 game wardens patrolling all of California. Each warden is responsible for patrolling approximately 1,700 square miles. California currently has the same number of wardens it did in the early 1950s even though the state's population has grown about four times over the same period, putting additional pressure on the state's wildlife resources. Over the last decade, the department has had difficulty recruiting wardens because of the relatively low pay for a law-enforcement position. Currently the bottom step for a game warden is less than \$38,000 annually, which is significantly less than comparable jobs with the

California Highway Patrol. Game wardens are also not paid differential pay for holidays or overtime and must work alone without backup the majority of the time.

The Legislature provided \$5 million from the General Fund to establish 40 new positions in the 2005 Budget Act. These funds were vetoed by the Governor.

Governor's Budget. The Governor's budget does not provide additional funding to increase the number of wardens the department has statewide or propose augmentations to employee compensation levels to address the recruitment problems.

Staff Recommendation. Staff recommends that the Subcommittee request that staff, the department, the LAO, and DOF evaluate alternatives for funding the following:

- The current pay-differential between wardens and California Highway Patrol officers.
- Hiring additional wardens to augment the department's enforcement efforts.

14. Timber Harvest Plan Review – Informational Item

Background. The 2005 Budget Act provided \$1.7 million from the General Fund to establish 15 new positions to restore statewide review of timber harvest plans.

Update. The department indicates that it has hired 11 new staff in the Central and Southern Sierra regions. The department indicates that 39 plans were received in the current year and the department has been able to do a full review of about 15 plans -- 40 percent of the plans. The department was able to do a desk review of the other plans. In addition, the department has reestablished four positions in the North Coast and Central Coast regions to serve as liaisons with the U.S. Forest Service.

3640 Wildlife Conservation Board

Background. The Wildlife Conservation Board (WCB) acquires property in order to protect and preserve wildlife and provide fishing, hunting, and recreational access facilities. The WCB is an independent board in the Department of Fish and Game and is composed of the Director of the Department of Fish and Game, the Director of the Department of Finance, and the Chairman of the Fish and Game Commission. In addition, three members of the Senate and three members of the Assembly serve in an advisory capacity to the board.

Governor's Budget. The Governor's Budget proposes \$40 million to support the WCB in the budget year. This is over a 90 percent reduction from estimated expenditures in the current year due to a reduction in the resources bond funds available for appropriation. General Fund support for the board remains unchanged in the budget year.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Type of Expenditure				
State Operations	\$6,102	\$3,655	-\$2,447	-40.1
Capital Outlay	543,804	36,423	-507,381	-93.3
Total	\$549,906	\$40,078	-\$509,828	-92.7
Funding Source				
General Fund	\$195	\$195	\$0	0.0
Special Funds	20,814	5,122	-15,692	-75.4
Bond Funds	512,342	34,761	-477,581	-93.2
<i>Budget Act Total</i>	<i>533,351</i>	<i>40,078</i>	<i>-493,273</i>	<i>-92.5</i>
Reimbursements	11,555	-	-	-
Oak Woodlands Conservation Fund	5,000	-	-	-
Total	\$549,906	\$40,078	-\$509,828	-92.7

1. Natural Heritage Preservation Tax Credit Program— Informational Item

Background. The Natural Heritage Preservation Tax Credit Program was enacted by legislation in 2000 (SB 1647, O'Connell). The program allows a 55 percent credit on the appraised fair market value of donated property. Under the program, up to \$100 million in tax credits is authorized for donations of qualified land and water. Due to reduced levels of General Fund available for this program, it was suspended in 2002. However, legislation enacted in 2004 (AB

2722, Laird) amended the program and removed the suspension to allow the lost General Fund revenues resulting from the tax credit to be reimbursed using certain bond funds.

Update. To date, \$48.2 million in tax credits have been awarded. This results in a balance remaining of \$51.8 million.

2. Continuously Appropriated Bond Funds—Informational Item

Background. Recent bond funds approved by the voters provided WCB with allocations that are continuously appropriated. Therefore, after an initial allocation, they are not part of the board's annual budget appropriations. The following table provides an update on the funds that have been allocated to date and the balance remaining for new acquisitions. (Not all of the funds listed below are continuously appropriated.)

Proposition 50 Bond Funds				
(dollars in thousands)	Appropriated	Allocated	Balance	% Remaining
Statewide - Integrated Watersheds	\$131,500	\$131,359	\$141	0.1
Salton Sea Area (per SB 71)	8,500	451	8,049	94.7
Colorado River/Salton Sea	50,000	36,432	13,568	27.1
Coastal Wetlands - Five Southern California Counties	250,000	157,551	92,449	37.0
L.A./Ventura Counties	300,000	299,137	863	0.3
Bay Area	200,000	158,832	41,168	20.6
Total	\$940,000	\$783,762	\$156,238	16.6
Proposition 40 Bond Funds				
Statewide	\$300,000	\$142,063	\$157,937	52.6
Rangeland, Grazing, and Grasslands	19,200	11,693	7,507	39.1
Oak Woodlands	4,800	1,730	3,070	64.0
Total	\$324,000	\$155,486	\$168,514	52.0
Proposition 12 Bond Funds				
Various Projects	\$265,500	\$255,746	\$9,754	3.7
Total	\$265,500	\$255,746	\$9,754	3.7
Grand Total	\$1,529,500	\$1,194,994	\$334,506	21.9

Update. Approximately \$335 million or 22 percent of the total bond funds appropriated are available for expenditure. In calendar year 2005, the board allocated funding to the following projects:

- **Grants.** The board allocated \$44.7 million in grants to other entities to acquire nearly 6,300 acres of land.
- **Restoration and Public Access Projects.** The board allocated \$29.5 million to restore and provide public access to nearly 23,000 acres of land.
- **Fee Acquisitions.** The board allocated \$23 million to acquire 5,500 acres of land for management by the Department of Fish and Game.
- **Conservation Easements.** The board allocated \$8.2 million to acquire conservation easements on over 19,000 acres of land.

3. Habitat Conservation Fund

Background. The Habitat Conservation Fund was created by Proposition 117, the California Wildlife Protection Act of 1990 that, among other things, requires an annual General Fund transfer of \$30 million to the Habitat Conservation Fund unless other funding sources are available. The funds may be used for the purpose of acquiring, restoring, and enhancing habitat as necessary to protect wildlife and plant populations.

Governor's Budget. The Governor proposes allocating \$21 million to WCB for acquisition, restoration, and enhancement of habitat from the Habitat Conservation Fund. The administration proposes to use a combination of Proposition 50 bond funds (\$17.7 million) and Unallocated Cigarette and Tobacco Product Surtax (\$3.3 million) to satisfy this obligation in the budget year. (Remaining Habitat Conservation Fund allocations include \$4.5 million to the Department of Parks and Recreation, \$4 million to the State Coastal Conservancy, and \$500,000 to the California Tahoe Conservancy.)

Future Allocations Uncertain. Since 2002-03 the administration has funded the Habitat Conservation Fund using various bond funds. This action has saved the state \$30 million in General Fund monies. The state likely has enough bond funds to satisfy the Habitat Conservation Fund requirement for the next few years, but these funds will soon run out. Current law requires a portion of tidelands oil revenues to be used to fund the Habitat Conservation Fund. However, this law is set to sunset on June 30, 2006. If a long-term sustainable funding source is not identified for this funding requirement, additional General Fund will be needed.

Staff Recommendation. Staff recommends the Subcommittee take the following actions:

- Approve the budget proposal to fund the Habitat Conservation Fund.
- Request staff, the board, the LAO, and DOF to evaluate when additional funding will be needed to satisfy the Habitat Conservation Fund and to identify options for funding sources once bond funds are exhausted.

4. Proposition 12 Bond Program

Background. The Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Bond (Proposition 12) was passed by the voters in 2000. This bond provided WCB with \$265.5 million for acquisition, restoration, and development of real property benefiting fish and wildlife resources. The funds were allocated for the following types of acquisition and restoration projects:

- Restoration of wetland habitat - \$10 million.
- Restoration or acquisition of riparian habitat and watershed conservation programs - \$10 million.
- Restoration or acquisition of habitat for threatened and endangered species - \$45 million.
- Restoration or acquisition of ancient redwoods and oak woodlands - \$13 million.
- Restoration or acquisition of habitat and habitat corridors that promote recovery of threatened, endangered, or fully protected species - \$82 million.
- Acquisition of property subject to a natural community conservation plan - \$100 million.
- Salton Sea restoration projects - \$5 million.

Governor's Budget. The Governor's budget proposes to appropriate the remaining Proposition 12 bond funds. The budget proposes to revert \$11.7 million in Proposition 12 bonds that have not been expended. The budget also proposes to appropriate \$15.2 million in Proposition 12 bond funds, including the \$11.7 million proposed for reversion. Funding is available in the following categories:

- Restoration or acquisition of habitat for threatened and endangered species - \$3.3 million.
- Restoration or acquisition of habitat and habitat corridors that promote recovery of threatened, endangered, or fully protected species – \$6.2 million.
- Acquisition of property subject to a natural community conservation plan - \$5.8 million.

The Governor's budget also proposes \$200,000 to continue management of the board's Proposition 12 bond program.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposals.

5. Proposition 50 Bond Programs

Background. The Water Security, Clean Drinking Water, Coastal, and Beach Protection Fund of 2002 provided \$940 million to the board for various acquisition and restoration projects.

Governor's Budget. The budget includes the following proposals:

- **Colorado River.** The budget proposes that \$12.5 million of unexpended Proposition 50 bond funds be reappropriated for grants for canal lining and other projects necessary to reduce Colorado River water use. The 2003 Budget Act provided \$32.5 million for this purpose.
- **Program Delivery.** The budget proposes to reduce the board's program delivery budget by \$2.5 million from Proposition 50 bond funds. The board originally requested these

funds to assist DFG in implementing the Quantification Settlement Agreement to reduce Colorado River use. Since then, legislation was enacted in 2003 that provided DFG with direct funding for this activity.

All-American Canal. The Governor's budget proposes to allocate \$86 million from General Fund monies to fund the lining of the All-American canal in the budget year. The \$12.5 million in bond funds proposed for reappropriation by the board are eligible for funding this activity. Thus far, \$19 million in Proposition 50 bond funds have been allocated to the lining of the Coachella and All-American canals. Shifting \$12.5 million of the funding for the All-American Canal from the General Fund to bond funds would not reduce the state's obligation to provide the \$32.5 million that is owed under current law to complete this project.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Request, staff, the board, DOF, and LAO to evaluate shifting \$12.5 million of the funding for the All-American Canal from the General Fund to Proposition 50 bond funds.
- Approve the budget proposal to reduce the board's program delivery costs.

6. Oak Woodlands Conservation Program

Background. Legislation (AB 262, Thomson) enacted in 2001 established the Oak Woodlands Conservation Act to support and encourage long-term private stewardship and conservation oak woodlands. The legislation provided \$5 million from the Proposition 12 bond fund to provide incentives for private farming and ranching operations to protect oak woodlands, local land use planning that preserves oak woodlands, and other efforts that preserve oak woodlands. These funds were appropriated to the board in the 2003 Budget Act.

The Act requires the preparation of an Oak Woodland Management Plan prior to awarding grant funds. The board indicates that the development of these plans has generated a great deal of controversy and concern. However, the plans are being developed by local governments and, to date, ten counties have completed the required plan, five counties are close to completing their plans, and three counties are still struggling to reach consensus. One county has voted not to prepare a plan, which makes them ineligible for bond funds under this program.

Governor's Budget. The board requests that \$5 million from Proposition 12 bond funds (on deposit in the Oak Woodlands Conservation Fund) be reappropriated so that the board can award grants to implement the Oak Woodlands Conservation Act. The expenditure of these funds has been delayed by the need to prepare Oak Woodland Management Plans prior to awarding grant funds.

Staff Recommendation. Staff recommends that the Subcommittee approve this budget proposal.

3110 Tahoe Regional Planning Agency

1. 2007 Pathway Planning Process – Informational Issue

Background. The Tahoe Regional Planning Agency is currently involved in the 2007 Pathway planning process with other federal and state agencies to update resource management plans by 2007 for the Lake Tahoe Basin. These regional plan updates will guide land management, resource management, and environmental regulations over the next 20 years. The plans will address how much additional development will take place at Lake Tahoe and the projected state of the water quality in the lake, among other things. The Agency is working in conjunction with the U.S. Forest Service, the Lahonton Regional Water Quality Control Board, and the Nevada Division of Environmental Protection to update this plan.

Staff Comments. To date, California taxpayers have pledged over \$275 million in state funds to implement the Environmental Improvement Program in the Lake Tahoe basin. The outcome of the regional plans currently being developed could degrade the investments already made by the state to improve the environment in the Tahoe Basin. Furthermore, planning decisions could also make it more difficult and costly for the state to achieve specific environmental standards going forward. Staff is concerned that the outcomes of the planning process could work at cross purposes with other state agency efforts to implement the Environmental Improvement Program.

Questions.

- Will the Agency consider weakening the environmental standards for the Lake Tahoe Basin to accommodate additional development?
- The environmental threshold standards that are currently in place have not been reached. How will the Agency account for this fact when developing the plan?

2. Permit Tracking System

Finance Letter. The Finance Letter (dated March 30, 2006) from the Governor requests a \$572,000 one-time augmentation from the Environmental License Plate Fund to replace the Agency's antiquated permit tracking system. The State of Nevada will provide \$286,000 to share in the funding support for this system.

Justification. The Agency recently commissioned an agency-wide operational audit and one of the key recommendations from the audit was to replace the Agency's permit tracking system. The current system does not allow for tracking land-use and environmental threshold requirement data, which reduces the effectiveness of the permitting process in meeting the environmental standards. Furthermore, the current system is essentially a paper based system that greatly reduces the efficiency of staff in processing permits and providing public access to documents.

Staff finds that the new system will improve the efficiency and effectiveness of the Agency's permitting process. However, it is unclear whether this proposal has gone through the normal

feasibility study report (FSR) process. Because of the importance of FSRs for project planning and budgeting, the Legislature stated intent in the 2005-06 budget (Control Section 11.05) that funding not be approved for information technology projects without FSRs approved at the time of the budget request.

Staff Recommendation. Staff recommends that the Subcommittee hold this issue open and request the Agency to provide an approved FSR for this project.

3720 California Coastal Commission

Background. The California Coastal Commission, following its initial creation in 1972 by a voter initiative, was permanently established by the State Coastal Act of 1976. In general, the act seeks to protect the state's natural and scenic resources along California's coast. It also delineates a "coastal zone" running the length of California's coast, extending seaward to the state's territorial limit of three miles, and extending inland a varying width from 1,000 yards to several miles. The commission's primary responsibility is to implement the act's provisions. It is also the state's planning and management agency for the coastal zone. The commission's jurisdiction does not include the San Francisco Bay Area, where development is regulated by the San Francisco Bay Conservation and Development Commission.

Governor's Budget. The Governor's Budget proposes \$11.2 million for support of the Coastal Commission in 2006-07. This is approximately the same as estimated expenditures in the current year. General Fund support for the department is also proposed to stay at the same level.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Type of Expenditure				
Coastal Management Program	\$14,795	\$14,687	-\$108	-0.7
Coastal Energy Program	716	719	3	0.4
Administration	1,613	1,624	11	0.7
<i>less distributed administration</i>	<i>-1,532</i>	<i>-1,543</i>	<i>-11</i>	<i>0.0</i>
Total	\$15,592	\$15,487	-\$105	-0.7
Funding Source				
General Fund	\$9,935	\$9,845	-\$90	-0.9
Special Funds	1,358	1,314	-44	-3.2
<i>Budget Act Total</i>	<i>11,293</i>	<i>11,159</i>	<i>-134</i>	<i>-1.2</i>
Federal Trust Fund	3,021	3,040	19	0.6
Reimbursements	1,279	1,288	9	0.7
Total	\$15,593	\$15,487	-\$106	-0.7

1. Improving Coastal Access and Development Mitigation

Background. The Coastal Commission has employed the use of "offers to dedicate" (OTDs) as a mitigation tool in its permitting process. This tool was developed as a result of legal and statutory limitations on imposing mitigation as a permit condition for coastal development.

OTDs are different from the upfront mitigation requirements often employed by other land use permitting agencies such as the San Francisco Bay Conservation Development Commission. Under OTDs, the permittee offers to transfer an interest in a portion of their land at some point *in the future* (when an entity is found to accept the offer) in return for a permit to develop their property *now*.

Once the OTD is recorded, the commission attempts to identify organizations which will accept the OTD, a process which typically takes several years. By accepting the OTD, the accepting agency assumes responsibility for providing and maintaining the mitigation. Pursuant to commission practice, the "offer" of an OTD typically remains in effect for a period of 21 years. If an OTD is not accepted by a third party within the specified time, the OTD expires, which results in a permanent loss of the mitigation measure agreed to at the time the permit was granted.

There are two major categories of OTDs used by the commission: access and non-access. Access OTDs provide access within the coastal zone—usually directly to the ocean. The second broad category of OTDs are non-access (mainly conservation) dedications. These are generally conservation areas or environmentally important areas where public access is not the primary goal of the mitigation.

Last year, in response to recommendations by the LAO, the Legislature approved \$600,000 to establish five new positions to address the backlog of work related to tracking, accepting and opening OTDs. The Governor vetoed this augmentation. The Legislature also requested that the Commission prepare an inventory of outstanding OTDs and an annual report on its progress in getting these OTDs accepted.

Governor's Budget. The Governor's budget does not provide additional funding for the Coastal Commission to address the backlog of OTDs.

Reports Completed. The Commission has prepared two reports that inventory outstanding OTDs and its progress in getting these OTDs accepted. The two reports cover public access OTDs and conservation/open space OTDs. The results of the reports are as follows:

- **Public Access.** The Commission reports that 1,496 public access OTDs have been recorded and 75 percent of these OTDs have been accepted. In Calendar year 2005, the Commission was successful in getting 52 public access OTDs accepted. There are approximately 350 public access OTDs that remain outstanding and 57 will expire in calendar years 2006 and 2007.
- **Conservation/Open Space.** The Commission reports that 968 conservation OTDs have been recorded and one-third of these OTDs have been accepted. In Calendar year 2005 the Commission was successful in getting 34 conservation OTDs accepted. There are approximately 524 conservation OTDs that remain outstanding and 103 OTDs that have an unknown status. Approximately 70 conservation OTDs are set to expire in calendar years 2006 and 2007.

Staff Comments. The reports illustrate that there are a significant number of OTDs that have not been accepted. A significant number of OTDs are set to expire in the next two years.

Furthermore, the Commission has generally not been as successful in getting conservation OTDs accepted. This may be because current law requires the State Coastal Conservancy to accept all public access OTDs that are set to expire. There is no parallel law for conservation OTDs and, to date, 17 conservation OTDs have expired. Furthermore, conservation OTDs often require additional research when recorded documents are unconfirmed. Staff finds that the Commission could use additional staffing resources to ensure that all OTDs are accepted prior to expiration, especially conservation OTDs.

Coastal Commission Permit Fees. Staff finds that the commission's current permit fees have not been increased since 1991 and that its fees are considerably lower than comparable fees at local governments. The commission has the authority to increase its fees without action by the Legislature. However, the Commission indicates that additional staff resources are needed to develop a revised fee schedule. If the commission raised its fees to cover approximately 50 percent of its current permitting program it would raise approximately \$2.3 million. Current law requires that the commission fees be transferred to the State Coastal Conservancy for coastal access projects.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Adopt trailer bill language that allocates \$1 million of the permit fees annually to the State Coastal Conservancy for coastal access projects, including accepting and opening OTDs. The remainder of the fee revenues (\$1.3 million) should be deposited in the General Fund to support the Commission's budget.
- Augment the budget by \$450,000 General Fund to establish four new positions. Two new positions should be allocated to address the backlog of conservation OTDs, one new position should be allocated to address the public access OTDs, and one position should be dedicated to help put in place a new fee schedule (this position should be dedicated to the department's permitting program after implementing the new fee schedule).
- Adopt trailer bill language to require annual reporting to the Legislature on the status of outstanding OTDs.

2. Review of LNG and Off-Shore Oil Leases

Background. The California Coastal Commission permits all development within the coastal zone, which includes new liquefied natural gas (LNG) terminals on the coast and associated pipelines related to new LNG terminals and existing marine oil terminals (MOT). The Commission is required to review these proposals for their consistency with Local Coastal Plans prior to issuing a permit and is also required to engage in compliance activities to ensure that the conditions of the permit are being implemented.

The commission has a relatively small staff (approximately 4 positions) to review all energy-related applications. This is of concern given the amount of work related to the court ordered review of 36 marine oil terminal leases and several complex LNG proposals that are expected to require review by the commission in the upcoming months.

Governor's Budget. The Governor's budget does not provide additional funding for the Commission's energy-related workload.

Staff Comments. Staff finds that the Commission's workload related to energy-related projects has increased significantly over the past few years. However, the Commission's resources have not been augmented to address this increased workload. The Legislature provided additional funding to address this need in the 2005-06 budget, but it was vetoed by the Governor. The recent FERC decision has significantly reduced the state's influence over the siting of an LNG facility. However, the Coastal Commission's permitting authority is still relevant making it one of the only entities that can shape the way in which the facility is sited. Staff finds that additional resources are needed at the Commission to address this increased workload.

Furthermore, the Commission has lost 34 positions, or 20 percent of its workforce, since 2001. This has slowed the time it takes for the Commission to review permit applications, which has resulted in a considerable backlog of work at the Commission. This has reduced the Commission's ability to carry out its mission to protect and enhance the California Coast for all Californians to enjoy.

Staff Recommendation. Staff recommends that the Subcommittee take the following action:

- Augment the budget by \$200,000 General Fund to establish 2 new positions to augment the energy unit in the Commission that reviews LNG proposals and the MOT leases.

3. Coastal and Marine Education

Background. The California Coastal Act directs the Commission to carry out a public education program that includes outreach efforts to schools, youth organizations, and the general public for the purpose of promoting the conservation and wise use of coastal and ocean resources. The Commission conducts a wide variety of educational programs, including Coastal Cleanup Day, Adopt-A-Beach, and others. The Commission currently has an ongoing grant program to fund education projects that is funded by the sale of whale tail license plates. Since the inception of this program in 1998, the Commission has supported 202 projects.

Governor's Budget. The budget proposes \$349,000 from the whale tail license plate revenues to support additional grants to non-profits and government agencies to enhance coastal and marine education. The budget proposal indicates that \$100,000 would be a permanent augmentation to the baseline for this program and \$249,000 would be a one-time augmentation for 2006-07. There is \$359,000 in the current baseline budget for this program.

Justification. The Commission indicates that there is a very large unmet need for additional coastal and marine education programs. The Commission estimates that its programs reached 175,000 school age children in 2004-05. However, California's total school age population is about 6.9 million. Furthermore, the Commission indicates the Commission's grants for the adopt-a-beach program and Coastal Cleanup Day have saved California taxpayers \$10 million annually in trash removal costs.

Staff Recommendation. Staff recommends that the Subcommittee approve this budget proposal.

3820 San Francisco Bay Conservation and Development Commission

Background. The San Francisco Bay Conservation and Development Commission (BCDC) implements and updates the San Francisco Bay Plan and the Suisun Marsh Protection Plan. Under these plans, BCDC regulates and issues permits for (1) all filling and dredging activities in the San Francisco, San Pablo, and Suisun Bays including specified sloughs, creeks, and tributaries; (2) changes in the use of salt ponds and other "managed wetlands" adjacent to the bay; and (3) significant changes in land use within the 100-foot strip inland from the bay. The commission's main objectives are to minimize fill in San Francisco Bay and maximize public access to the shoreline.

Governor's Budget. The Governor's Budget proposes \$4.1 million for support of BCDC in 2006-07. This is approximately the same as estimated expenditures in the current year. General Fund support for the department is also proposed to stay at the same level.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Type of Expenditure				
Bay Conservation and Development	\$4,064	\$4,103	\$39	1.0
Total	\$4,064	\$4,103	\$39	1.0
Funding Source				
General Fund	\$3,197	\$3,230	\$33	1.0
<i>Budget Act Total</i>	<i>3,197</i>	<i>3,230</i>	<i>33</i>	<i>1.0</i>
Reimbursements	671	678	7	1.0
Bay Fill Clean-Up and Abatement Fund	196	195	-1	-0.5
Total	\$4,064	\$4,103	\$39	1.0

1. Restoration of Budget

Background. Since 2001 the Commission has lost 16 positions due to General Fund budget reductions. This is a reduction of nearly one-third of the 49 staff the department had in 2000. The BCDC reports that these staff reductions have resulted in a general deterioration in the quality of service provided by the Commission.

Governor's Budget. The Governor's budget does not propose an augmentation to the Commission's budget.

Impacts of Budget Reductions. The Commission indicates that there have been numerous impacts related to the budget reductions suffered by BCDC. These impacts include the following:

- Delayed permit processing.
- Reduced enforcement and inspections to review permits for compliance.
- Slowed update of the San Francisco Bay Plan.
- Significantly reduced the Long Term Management Strategy for Bay dredging and disposal, delayed dredging projects, and slowed the development of projects that utilize dredged materials to restore wetlands.
- Eliminated BCDC's ability to fulfill legislatively mandated seismic safety and flood prevention responsibilities.
- Reduced compliance with state-mandated administrative procedures.
- Reduced collaboration with other agencies.

Commission's Investment Proposal. In order to address the budget reductions suffered by BCDC, the Commission has developed a proposal to augment the Governor's proposed 2006-07 budget by about \$1.0 million from General Fund monies to restore 11 positions. The Commission reports that it needs the following expertise to restore functions at BCDC that have been reduced over the last several years:

- Information Technology Managers (2).
- Permit Analysts (2).
- Enforcement Analyst (1).
- Senior Engineer (1).
- Dredging Analysts (2).
- Contracts Manager (1).
- Secretaries (2).

The BCDC's Permit Fees. In 2004, budget bill language was approved that directed BCDC to revise its fee schedule to cover 20 percent of the total cost of the commission's regulatory program. This resulted in an increase in the commission's fee schedule. Staff finds that the commission's permit fees are still lower than comparable fees at local governments and other state agencies, including the Coastal Commission. The commission has the authority to increase its fees without action by the Legislature. If the commission raised its fees to cover approximately 50 percent of its current regulatory program it would raise approximately \$1 million in revenues that would be deposited in the General Fund.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Adopt budget bill language to request the commission to augment its fee schedule to cover 50 percent of its regulatory program, which will generate approximately \$600,000 in additional revenue for the General Fund.
- Augment the commission's budget by \$1 million from the General Fund to support 11 positions as outlined in the Commission's investment plan.

3480 Department of Conservation

Background. The Department of Conservation (DOC) is charged with the development and management of the state's land, energy, and mineral resources. The department manages programs in the areas of: geology, seismology, and mineral resources; oil, gas, and geothermal resources; agricultural and open-space land; and beverage container recycling.

Governor's Budget. The Governor's Budget proposes \$874 million to support DOC in the budget year. This is the same level of funding as is estimated for expenditure in the current year. General Fund support for the department is proposed to be 16 percent less in the budget year due to a one-time transfer from the General Fund to the department's Oil, Gas, and Geothermal Administrative Fund due to a recent statutory change.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Type of Expenditure				
Geologic Hazards and Mineral Resources Conservation	\$27,474	\$22,695	-\$4,779	-17.4
Oil, Gas, and Geothermal Resources	16,951	16,984	33	0.2
Land Resource Protection	44,819	12,839	-31,980	-71.4
Beverage Container Recycling and Litter Reduction	797,670	827,302	29,632	3.7
Office of Mine Reclamation	-	5,363	-	-
Administration	11,301	11,438	137	1.2
<i>less distributed administration</i>	<i>-11,301</i>	<i>-11,438</i>	<i>-137</i>	<i>0.0</i>
Total	\$886,914	\$885,183	-\$1,731	-0.2
Funding Source				
General Fund	\$4,938	\$4,165	-\$773	-15.7
Special Funds	828,050	859,477	31,427	3.8
Bond Funds	42,545	9,964	-32,581	-76.6
<i>Budget Act Total</i>	<i>875,533</i>	<i>873,606</i>	<i>-1,927</i>	<i>-0.2</i>
Federal Trust Fund	1,745	1,779	34	1.9
Bosco-Keene Renewable Resources Investment Fund	872	901	29	3.3
Reimbursements	8,765	8,897	132	1.5
Total	\$886,915	\$885,183	-\$1,732	-0.2

1. Williamson Act

Background. The Williamson Act allows cities and counties to enter into contracts with landowners to restrict certain property to open space and agricultural uses. In return for these restrictions, the property owners pay reduced property taxes. The contracts entered into between local governments and property owners are ten-year contracts, which are typically renewed each year for an additional year, such that the contract remains at a constant 10 years. Landowners that do not renew their contracts face gradual increases in their property tax over a ten-year period to the level that unrestricted land is taxed. Landowners that cancel their Williamson Act contracts must pay a penalty of 12.5 percent of the unrestricted fair market value of the land.

Governor's Budget. The Governor's Budget proposes \$896,000 (\$463,000 from the Soil Conservation Fund and \$433,000 from Proposition 12 bond funds) to fund five 2-year limited-term positions and additional contract funds to increase enforcement of the Williamson Act.

Workload Justification. The department currently has 7.5 positions supporting the Williamson Act. The budget proposal would augment this program by over 60 percent. However, the department estimates that, with the new positions, it could raise an additional \$4.5 million in revenues to the General Fund by ensuring accurate and timely payment of Williamson Act contract cancellation fees and ensuring that state subventions to local governments are based on qualifying contracted lands. This is a projected five to one return on investment for the state. The department will reassess its enforcement efforts after the two-year period to determine whether the increased enforcement efforts are justified. The Legislature provided \$350,000 for this purpose in the 2005 budget, but these funds were vetoed by the Governor.

Staff Comments. The Governor proposes \$433,000 from Proposition 12 bond funds to support this program. These funds have been supporting the Williamson Act program since 2004-05 when General Fund monies were cut from this program. While staff understands that bond funds have been utilized to backfill General Fund reductions to this program over the past two years, this is not an appropriate use of bond funds and it is not a sustainable source of funding for this program. These bond funds were intended to be used to acquire agricultural easements, which is a more appropriate use of bond funding.

Current law allows the department to deposit the first \$2 million of Williamson Act fines and penalties it receives in the Soil Conservation Fund to support its program. The remaining fines and penalties from the Williamson Act are transferred to the General Fund. Staff finds that since the budget proposal is projected to bring in \$5 for every \$1 spent by the department it seems appropriate to fund the entire program from the fines and penalties raised by the department. This would free up nearly \$1 million in additional bond funding for the California Farmland Conservancy Program.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve trailer bill language that amends Government Code §51283 to increase by \$500,000 the amount of Williamson Act penalties the department can keep to fully fund the expanded Williamson Act program.
- Approve \$896,000 from the Soil Conservation Fund to fund the Governor's budget proposal.

2. California Farmland Conservancy Program

Background. The California Farmland Conservancy Program was established in 1996 and provides grant funding for the planning and voluntary acquisition of agricultural easements. Proposition 40 provided \$75 million for the preservation of agricultural lands, grazing lands, and oak woodlands. These funds have been allocated to the following programs:

- California Farmland Conservancy Program - \$38 million.
- Rangeland, Grazing and Grassland Program (Wildlife Conservation Board [WCB]) - \$19 million.
- Oak Woodlands Conservation Program (WCB) - \$5 million.

Governor's Budget. The Governor's Budget proposes \$8.9 million from Proposition 40 for grants to conserve agricultural lands. These funds will fund the California Farmland Conservancy Program and are available for the planning and voluntary acquisition of agricultural conservation easements.

Staff Comments. Staff finds that the administration has made a policy choice to allocate the remaining Proposition 40 bond funds to the California Farmland Conservancy Program at the department. These funds are also eligible for preserving agricultural land through the Rangeland, Grazing, and Grassland Program and the Oak Woodlands Conservation Program, which are both administered by WCB.

Staff Recommendation. Staff recommends that the Subcommittee hold this issue open and request that staff, the department, the WCB, the LAO and DOF evaluate the relative needs and the cost effectiveness of each of these programs in preserving agriculture land.

3. Beverage Container Recycling Program

Background. The DOC's Division of Recycling administers the California Beverage Container Recycling and Litter Reduction Act (commonly referred to as the bottle bill) to achieve and maintain high recycling rates for beverage containers included in the program. The DOC provides a number of services to achieve these goals, including enforcement, auditing, grant funding, technical assistance, and education. Revenues to the Beverage Container Recycling Fund increased 40 percent in 2004-05 due to the implementation of legislation (AB 28, Jackson) enacted in 2003 that increased the deposit for beverage containers sold in California.

Governor's Budget and Finance Letter. The Governor's Budget proposes \$904,000 from the Beverage Container Recycling Fund to fund eight 2-year limited-term positions to combat fraud in the Beverage Container Recycling Program. The Finance Letter (dated March 30, 2006) proposes \$5.2 million in one-time funds from the Beverage Container Recycling Program to support the implementation of an integrated information technology system for the Division of Recycling (DORIIS) to improve the department's ability to provide timely remittances and to detect fraud.

Workload Justification. The department reports that between 2001 and 2004 the department conducted audits of 206 recycling centers. These audits revealed that as many as 90 percent of all claims were fraudulent and \$45 million in claims were not paid to these centers. On average the department's 12 auditors each uncovered \$1 million in fraud annually, which is a nine to one return on investment. The budget proposal would increase the department's auditing resources by over 60 percent. However, the department plans to re-evaluate the performance of the audit resources after a two-year period to determine whether the increase in audit resources is justified.

The department estimates that the integrated information technology program will save the department \$18 million annually due to improved revenue collection and improved ability to track fraudulent activities. Furthermore, the department estimates that it will save the industry over \$20 million due to the increased convenience of an e-government interface and by shortening the "float" time that it takes the department to reimburse processors.

LAO Recommendation. In their analysis of the 2006-07 Budget, the LAO has raised concerns that recycling rates below target have resulted in a swelling fund balance within the program. Currently, the Beverage Container Recycling Fund is expected to carry an overall fund balance of \$429 million. The department has had a large surplus balance over the last several years and, starting in 2002-03, about \$325 million total was loaned to the General Fund to address the budget problem. The majority of these loans require repayment by 2008-09. Repayment of these loans will add further to the growing balance. In their analysis, the LAO has proposed various options the Legislature could use to address this problem, including:

- Increasing the California Redemption Value (CRV) to increase recycling rates.
- Expanding consumer education programs.
- Increasing Convenience Zone handling payments or expanding entities eligible for payments.
- Increasing grants to community organizations and local governments to encourage increased recycling.
- Increasing market development grants.
- Increasing supplemental payments to curbside recyclers.
- Reducing the Flow of Revenues into the Fund by suspending payments made by beverage container distributors into the fund.

The LAO recommends that the Legislature request the department to prepare a supplemental report evaluating the cost effectiveness of options to decrease the residual balance in the Beverage Container Recycling Fund, including the options listed above.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve the budget proposal to augment enforcement resources.
- Approve the Finance Letter proposal to fund the integrated information technology project.
- Approve the supplemental report language recommended by the LAO.
- Request staff, the department, the LAO, and DOF to work on a one-time project to increase grants to the California Conservation Corp and local conservation corps to increase recycling activities.

4. Division of Oil, Gas, and Geothermal Resources

Background. The Division of Oil, Gas, and Geothermal Resources ensures the safe exploration and development of hydrocarbon and geothermal resources. The division ensures that operators use sound engineering practices to protect life, health, property, and natural resources. The division oversees all operations related to mineral extraction from drilling to the plugging of abandoned wells.

Governor's Budget and Finance Letter. The Governor's budget proposes \$354,000 from the Oil, Gas, and Geothermal Administrative Fund to support four new positions to fill existing gaps in regulating geothermal resources in Northern California and oil and gas extraction in the San Joaquin Valley. These positions are funded by annual regulatory fees on the oil, gas, and geothermal industries.

The Finance Letter (dated March 30, 2006) proposes authorizing expenditure authority of \$1.5 million from the Acute Orphan Well Account established by recently enacted legislation (AB 1471, McCarthy). This account is funded by a one-time industry assessments (assessment expires 1/1/08) and will be made available only if the department needs to plug an abandoned orphan well that poses immediate danger to human health and safety. The department also allocates \$1 million from the Oil, Gas, and Geothermal Trust Fund to plug orphan wells. The new Acute Orphan Well Account will be used only after the department has expended the \$1 million from the Oil, Gas, and Geothermal Trust Fund.

Workload Justification. Since 2001, the Division of Oil, Gas, and Geothermal Resources has lost 17 positions. This has negatively impacted the department's ability to meet its statutory obligation to regulate the oil, gas, and geothermal industries. Last year the department added four clerical staff to allow engineers to be out in the field inspecting the oil and gas facilities. The department's proposal this year is to add four new inspection staff to slowly replace some of the positions lost over the last several years.

The department currently has no field engineer to regulate geothermal energy production in the northern portion of California. This budget proposal adds one position to regulate these facilities. The Coalinga District (Fresno County) currently has three field staff to regulate 5,339 active wells. The budget proposal adds one position so that each person is responsible for regulating approximately 1,330 wells. The Bakersfield district (Kern County) currently has 12 field staff to regulate 64,145 active wells. The budget proposal adds two positions so that each person regulates about 4,580 active wells.

There is a large discrepancy between Fresno County and Kern County on the number of wells each inspector has to regulate. The department indicates that the well-to-inspector metric is not the best indicator of regulatory effort since some districts have oil wells that are geographically concentrated, allowing for a more efficient inspection program. The department indicates that in Kern County the wells are grouped into fields, which make them easier to regulate. Furthermore, the department indicates that it regulates wells that are closer to urban areas more often because of concerns related to health and safety. Some of the wells in Kern and Fresno are only inspected every two years because of relatively low human health and safety risks.

Staff Comments. Staff is concerned that the reduced level of regulatory presence in Kern County, the largest oil producing county in the state, results in less protection of the state's natural resources. Kern County has significant groundwater supplies that are critical to meeting the state's water supply needs and significant populations of threatened and endangered species in and around the oil wells that are at risk of contamination. Furthermore, oil and gas prices are currently at historic levels and it is likely that additional wells will come on line, further increasing the department's workload. Given this, staff finds that additional regulatory staff in Kern County is warranted.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Adopt the budget and Finance Letter proposals.
- Approve an augmentation of \$177,000 to fund two additional inspectors for Kern County from the Oil, Gas, and Geothermal Administrative Fund.

5. Surface Mining and Reclamation Act

Background. The department's Office of Mine Reclamation provides expertise and advice to lead agencies and operators to implement the Surface Mining and Reclamation Act (SMARA). This act sets forth provisions to promote the use and development of mineral resources consistent with sound conservation practices, and promotes effective mine land reclamation to prevent adverse impacts.

The State Mining and Geology Board operates within the DOC, and serves as a regulatory, policy and appeals body representing the state's interest in geology, geologic and seismologic hazards, conservation of mineral resources, and reclamation following surface mining activities. The board is the main regulatory agent in adopting regulations for SMARA.

April Letter. The April Letter (dated March 30, 2006) submitted by the administration proposes \$561,000 from the SMARA Account to fund two 2-year limited term positions and contracts to accelerate efforts to inventory abandoned mines on state-owned lands.

Workload Justification. There are approximately 47,000 abandoned mines statewide. Many of these sites are dangerous and may be causing significant water quality problems. For example, the Department of Parks and Recreation was recently sued due to the contaminated run-off from the Empire Mine State Historic Park. The department indicates that more information is needed on the nearly 1,400 abandoned mine sites that have been located on state properties so that the department can prioritize the workload associated with remediation of these sites. Because these sites are located on state-owned property, they are a potential liability to California.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve the budget proposal.
- Request staff, the department, LAO and DOF to evaluate options for augmenting the department's remediation of abandoned mines that pose a health and safety risk to Californians.

6. Other Budget Proposals

Governor's Budget. The Governor's budget contains the following other proposals:

- **Information Technology Upgrades.** The budget proposes \$537,000 annually for the next three years for lifecycle upgrades to the department's network computing infrastructure. This proposal is funded by various funds at the department (\$268,000 from the Beverage Container Recycling Fund, \$161,000 from the Oil, Gas, and Geothermal Administrative Fund, \$54,000 from the Surface Mining and Reclamation Account, and \$54,000 from the Mine Reclamation Account).
- **Geologic and Seismic Hazard Review for School Construction.** The budget proposes \$450,000 in reimbursements from the Division of State Architect within the Department of General Services to support six permanent positions to complete reviews of geologic and seismic hazard reports for school construction.

Workload Justification. The department indicates that the funding provided for the information technology upgrades will allow the department to complete a four-year "refresh" project of its information technology infrastructure that will extend the life of its existing equipment.

The department indicates that the number of reviews requested by the Division of the State Architect has increased significantly over the last few years. The Department of Finance has already allowed the department to establish six positions administratively in the current year to deal with the increased workload. Delays were experienced in the prior year because of a lack of staffing at the department for the geologic and seismic hazard review for new school construction.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposals.